

ORIGINAL

OPEN MEETING

MEMORANDUM



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2009 SEP 10 P 2:55

AS CORP COMMISSION
DOCKET CONTROL

TO: THE COMMISSION

FROM: Utilities Division

DATE: September 10, 2009

RE: COPPER MARKET, INC.-APPLICATION FOR APPROVAL OF AN INCREASE OF ITS PURCHASED GAS ADJUSTOR (DOCKET NO. G-02308A-09-0252)

BACKGROUND

On May 20, 2009, Copper Market, Inc. ("Copper Market") filed with the Commission, an application for approval of a \$0.0134 per cubic foot increase to its purchased gas adjustor ("PGA") surcharge. Currently, Copper Market's PGA is \$0.01874. At the time of the application, Copper Market indicated that it had a negative bank balance of \$778,635.

Copper Market, which is owned by Phelps Dodge, is a small distribution system providing propane to approximately 970 customers in Bagdad, Arizona. Copper Market bills its customers on a per cubic foot ("cf") basis, rather than per therm as other local Arizona distribution companies. For comparison purposes, one therm of propane is equal to approximately 40 cubic feet. Due to its unique circumstances, when the Commission implemented the banded rolling average PGA mechanism for other Arizona propane and natural gas companies, the Commission exempted Copper Market from this conversion. Therefore, Copper Market's gas cost rate does not change apart from specific action by the Commission to change the rate.

Copper Market's cost of gas reflected in its tariffed rates was last changed in Commission Decision No. 68815 (June 29, 2006). Copper Market's practice has been to write off PGA bank balances as they become rather large. According to its monthly PGA report, as of the end of June 2009, Copper Market reports an under-collected PGA bank balance of \$806,910. Without the increased PGA rate, Copper Market projects this under-collection to grow to approximately \$1.26 million by the end of 2010. In its application, Copper Market indicates that it intends to write off the negative bank balance. Any increase in the cost of gas implemented would only address Copper Market's continuing increase in propane prices. While Copper Market's proposed PGA rate increase represents a significant increase in customer bills, Copper Market's willingness to fully write off the end of September 2009 bank balance avoids a potentially much larger rate increase for its customers.

Arizona Corporation Commission

DOCKETED

SEP 10 2009

DOCKETED BY

[Signature]

STAFF ANALYSIS

Propane is produced through the process of refining natural gas and oil, so the high natural gas and oil prices in recent years have driven up propane prices. Propane market prices have increased in recent years. While natural gas prices have shown significant short-term declines in recent months, propane spot market prices have remained relatively high through late 2008 and into 2009. This is likely due to propane's price linkage to oil prices, which have remained high in 2008. To illustrate the recent changes in propane prices, the Mont Belvieu, Texas pricing hub saw a monthly price of \$1.5058 per gallon in January 2008, but prices have ranged from \$0.6103 per gallon to \$1.6509 per gallon since August 2008, with the May 2009 price at \$0.7010 per gallon. Due to a lack of pipeline infrastructure, it is necessary to have supplies trucked into the service territory from Utah and New Mexico. Therefore, delivered propane prices tend to be higher in Arizona. Copper Market's current cost of gas reflected in its tariffs does not include the cost increases that have taken place in propane markets in recent years.

Copper Market's current total cost of gas is \$0.03154 per cf, including a base gas cost of \$0.0128 per cf and its current PGA rate of \$0.01874 per cf (approximately \$1.26 per therm for comparison purposes). With Copper Market's proposal, the total cost of gas would increase to \$0.04494 per cf (approximately \$1.80 per therm for comparison purposes), once approved by the Commission; including \$0.0128 per cf in the base gas cost and \$0.03214 per cf in the PGA rate. However, at this time, Staff does not believe such a substantial increase to customers' monthly bills to be in the public interest. Therefore, Staff has proposed a lower PGA rate increase of \$0.00730 per cf. With Staff's proposal, the total cost of gas would increase to \$0.03884 per cf (approximately \$1.55 per therm for comparison purposes), including \$0.0128 per cf in the base gas cost and \$0.02604 per cf in the PGA rate. Staff notes that one gallon of propane equals 36.39 cubic feet and forty cubic feet equals approximately one therm of propane.

Despite the slight decline in propane prices in recent months, the price of propane is projected to increase for the remainder of 2009 and into 2010. It is projected that propane prices in the third and fourth quarters of 2010 will be higher than the prices in the third and fourth quarters of 2009. With the projected continuing rise in propane prices, it is possible Copper Market could continue to incur some level of under-collection even if Staff's proposed new PGA rate is approved. An adjustment to Copper Market's PGA rate is necessary to move it closer to the existing price of propane in recent years.

An average residential customer using 2,061 cubic feet (almost 21 therms) in February had a bill of \$69.85. Under Copper Market's proposed increase to the PGA rate, it is estimated that an average residential customer in February 2009 using 2,061 cubic feet would see a bill of \$97.47, an increase of almost 40 percent. Attached is a spreadsheet comparing the estimated customer bills and projected PGA bank balances through December 2010 with the current PGA surcharge, Copper Market's proposed increase in the PGA surcharge, and Staff's proposed increase in the PGA surcharge.

Estimated residential customer bills for February 2009 and February 2010 are shown below:

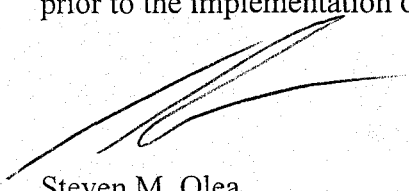
Bill Component	February 2009	February 2010-Company Proposal	February 2010-Staff Proposal
Basic Service Charge	\$3.00	\$3.00	\$3.00
Non-Gas Rate (\$0.0009 per cf)	\$1.85	\$1.85	\$1.85
Base Cost of Gas (\$0.0128 per cf)	\$26.38	\$26.38	\$26.38
PGA Rate	\$38.62 (\$0.01874 per cf)	\$66.24 (\$0.03214 per cf)	\$53.67 (\$0.02604 per cf)
Total Bill (excluding taxes)	\$69.85	\$97.47	\$84.90
Total % Increase		39.54%	21.55%

Copper Market has indicated to Staff that it intends to notify customers following any Commission action approving an increase to the PGA rate.

RECOMMENDATIONS

Given the circumstances stated above, Staff recommends approval of an increase in Copper Market's PGA rate of \$0.00730 from \$0.01874 to \$0.02604 beginning in October 2009.

In addition, Staff recommends that Copper Market provide notification to its customers prior to the implementation of the PGA rate increase.



Steven M. Olea
Director
Utilities Division

SMO:CLA:lhmm\MAS

ORIGINATOR: Candrea Allen

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 KRISTIN K. MAYES

Chairman

3 GARY PIERCE

Commissioner

4 PAUL NEWMAN

Commissioner

5 SANDRA D. KENNEDY

Commissioner

6 BOB STUMP

Commissioner

7
8 IN THE MATTER OF THE APPLICATION
9 OF COPPER MARKET, INC. FOR
10 APPROVAL OF AN INCREASE OF ITS
11 PURCHASED GAS ADJUSTOR
12 _____

DOCKET NOS. G-02308A-09-0252

DECISION NO. _____

ORDER

13 Open Meeting
14 September 22 and 23, 2009
15 Phoenix, Arizona

16 BY THE COMMISSION:

17 FINDINGS OF FACT

18 1. Copper Market, Inc. ("Copper Market" or "Company") is certificated to provide
19 electric service as a public service corporation in the State of Arizona.

20 BACKGROUND

21 2. On May 20, 2009, Copper Market filed with the Commission, an application for
22 approval of a \$0.0134 per cubic foot increase to its purchased gas adjustor ("PGA") surcharge.
23 Currently, Copper Market's PGA is \$0.01874. At the time of the application, Copper Market
24 indicated that it had a negative bank balance of \$778,635.

25 3. Copper Market, which is owned by Phelps Dodge, is a small distribution system
26 providing propane to approximately 970 customers in Bagdad, Arizona. Copper Market bills its
27 customers on a per cubic foot ("cf") basis, rather than per therm as other local Arizona distribution
28 companies. For comparison purposes, one therm of propane is equal to approximately 40 cubic
feet. Due to its unique circumstances, when the Commission implemented the banded rolling

1 average PGA mechanism for other Arizona propane and natural gas companies, the Commission
2 exempted Copper Market from this conversion. Therefore, Copper Market's gas cost rate does not
3 change apart from specific action by the Commission to change the rate.

4 4. Copper Market's cost of gas reflected in its tariffed rates was last changed in
5 Commission Decision No. 68815 (June 29, 2006). Copper Market's practice has been to write off
6 PGA bank balances as they become rather large. According to its monthly PGA report, as of the
7 end of June 2009, Copper Market reports an under-collected PGA bank balance of \$806,910.
8 Without the increased PGA rate, Copper Market projects this under-collection to grow to
9 approximately \$1.26 million by the end of 2010. In its application, Copper Market indicates that it
10 intends to write off the negative bank balance. Any increase in the cost of gas implemented would
11 only address Copper Market's continuing increase in propane prices. While Copper Market's
12 proposed PGA rate increase represents a significant increase in customer bills, Copper Market's
13 willingness to fully write off the end of September 2009 bank balance avoids a potentially much
14 larger rate increase for its customers.

15 **STAFF ANALYSIS**

16 5. Propane is produced through the process of refining natural gas and oil, so the high
17 natural gas and oil prices in recent years have driven up propane prices. Propane market prices
18 have increased in recent years. While natural gas prices have shown significant short-term
19 declines in recent months, propane spot market prices have remained relatively high through late
20 2008 and into 2009. This is likely due to propane's price linkage to oil prices, which have
21 remained high in 2008. To illustrate the recent changes in propane prices, the Mont Belvieu,
22 Texas pricing hub saw a monthly price of \$1.5058 per gallon in January 2008, but prices have
23 ranged from \$0.6103 per gallon to \$1.6509 per gallon since August 2008, with the May 2009 price
24 at \$0.7010 per gallon. Due to a lack of pipeline infrastructure, it is necessary to have supplies
25 trucked into the service territory from Utah and New Mexico. Therefore, delivered propane prices
26 tend to be higher in Arizona. Copper Market's current cost of gas reflected in its tariffs does not
27 include the cost increases that have taken place in propane markets in recent years.

28 ...

1 6. Copper Market's current total cost of gas is \$0.03154 per cf, including a base gas
2 cost of \$0.0128 per cf and its current PGA rate of \$0.01874 per cf (approximately \$1.26 per therm
3 for comparison purposes). With Copper Market's proposal, the total cost of gas would increase to
4 \$0.04494 per cf (approximately \$1.80 per therm for comparison purposes), once approved by the
5 Commission; including \$0.0128 per cf in the base gas cost and \$0.03214 per cf in the PGA rate.

6 7. However, at this time, Staff does not believe such a substantial increase to
7 customers' monthly bills to be in the public interest. Therefore, Staff has proposed a lower PGA
8 rate increase of \$0.00730 per cf. With Staff's proposal, the total cost of gas would increase to
9 \$0.03884 per cf (approximately \$1.55 per therm for comparison purposes), including \$0.0128 per
10 cf in the base gas cost and \$0.02604 per cf in the PGA rate. Staff notes that one gallon of propane
11 equals 36.39 cubic feet and forty cubic feet equals approximately one therm of propane.

12 8. Despite the slight decline in propane prices in recent months, the price of propane is
13 projected to increase for the remainder of 2009 and into 2010. It is projected that propane prices in
14 the third and fourth quarters of 2010 will be higher than the prices in the third and fourth quarters
15 of 2009. With the projected continuing rise in propane prices, it is possible Copper Market could
16 continue to incur some level of under-collection even if Staff's proposed new PGA rate is
17 approved. An adjustment to Copper Market's PGA rate is necessary to move it closer to the
18 existing price of propane in recent years.

19 9. An average residential customer using 2,061 cubic feet (almost 21 therms) in
20 February had a bill of \$69.85. Under Copper Market's proposed increase to the PGA rate, it is
21 estimated that an average residential customer in February 2009 using 2,061 cubic feet would see a
22 bill of \$97.47, an increase of almost 40 percent.

23 10. Estimated residential customer bills for February 2009 and February 2010 are
24 shown below:

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26 ...

27 ...

28 ...

Bill Component	February 2009	February 2010- Company Proposal	February 2010-Staff Proposal
Basic Service Charge	\$3.00	\$3.00	\$3.00
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Total Bill (excluding taxes)	\$69.85	\$97.47	\$84.90
Total % Increase		39.54%	21.55%

11. Copper Market has indicated to Staff that it intends to notify customers following any Commission action approving an increase to the PGA rate.

RECOMMENDATIONS

12. Staff has recommended approval of an increase in Copper Market's PGA rate of \$0.00730 from \$0.01874 to \$0.02604 beginning in October 2009.

13. In addition, Staff has recommended that Copper Market provide notification to its customers prior to the implementation of the PGA rate increase.

CONCLUSIONS OF LAW

1. Copper Market is an Arizona public service corporation within the meaning of Article XV, Section 2, of the Arizona Constitution.

2. The Commission has jurisdiction over Copper Market and over the subject matter of the Application.

3. The Commission, having reviewed the application and Staff's Memorandum dated September 10, 2009, concludes that it is in the public interest to approve the Copper Market request for an increase in its PGA surcharge.

ORDER

IT IS THEREFORE ORDERED that a Purchased Gas Adjustor rate of \$0.02604 per cubic foot be and hereby is approved, as discussed herein, for Copper Market, Inc.

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1 IT IS FURTHER ORDERED that Copper Market, Inc. provide notification to its customers
2 prior to the implementation of the PGA rate increase.

3 IT IS FURTHER ORDERED that this Order shall become effective immediately.

4 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

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6
7 CHAIRMAN

COMMISSIONER

8
9 COMMISSIONER

COMMISSIONER

COMMISSIONER

10
11 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,
12 Executive Director of the Arizona Corporation Commission,
13 have hereunto, set my hand and caused the official seal of
14 this Commission to be affixed at the Capitol, in the City of
15 Phoenix, this _____ day of _____, 2009.

16
17 _____
18 ERNEST JOHNSON
19 EXECUTIVE DIRECTOR

20 DISSENT: _____

21 DISSENT: _____

22 SMO:CLA:lhmm\MAS
23
24
25
26
27
28

Decision No. _____

1 SERVICE LIST FOR: Copper Market, Inc.
2 DOCKET NOS. G-02308A-09-0252

3 Mr. Marcus Middleton
4 Manager
5 Copper Market, Inc.
6 Post Office Box 245
7 Bagdad, Arizona 86321

8 Mr. Steven M. Olea
9 Director, Utilities Division
10 Arizona Corporation Commission
11 1200 West Washington Street
12 Phoenix, Arizona 85007

13 Ms. Janice M. Alward
14 Chief Counsel, Legal Division
15 Arizona Corporation Commission
16 1200 West Washington Street
17 Phoenix, Arizona 85007